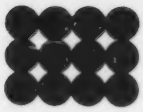


Newfoundland Liquor Corporation

Annual
Report
1984

85-4044/

NEWFOUNDLAND
LIQUOR
CORPORATION

Honourable Dr. J.F. Collins, F.R.C.P. (E)
Minister of Finance
Government of Newfoundland & Labrador
Confederation Building
St. John's, Newfoundland

Dear Mr. Minister:

I am pleased to submit the 11th annual report of the Newfoundland Liquor Corporation.

The report summarizes the Corporation's activities during the fiscal year ending March 31, 1984 and outlines a financial comparison with the previous year.

We gratefully acknowledge the contribution of all the Corporation's employees whose positive efforts contributed to our progress during the past year.

Yours very truly,

DOUGLAS M. CHAFE, R.I.A.,
President.

P. O. BOX 8750, STATION "A", KENMOUNT ROAD, ST. JOHN'S, NEWFOUNDLAND A1B 3V1 • TELEPHONE (709) 754-1100

The major objectives of the Corporation are to provide the most efficient system of distribution of alcoholic beverages to the public with the highest possible level of customer service, resulting in the maximizing of revenues to the Provincial Treasury, keeping in mind Government policies and the attitude and values of Society.

In line with these objectives, the Corporation was successful in improving efficiency, reducing costs, and increasing revenue to Government, while maintaining a high level of customer service.

For the fiscal year ended March 31, 1984, the Corporation realized a net income of $68,444,494 — an increase of $7,985,034 over the previous year. This income was derived from two sources:

(1) $36,002,477 from sales of spirits, wine and beer through Corporation liquor stores and liquor agency stores; and

(2) $32,442,017 through the collection of a Corporation mark-up on beer.

Corporation liquor store and agency store operations resulted in sales of $80,010,707 — an increase of $3,527,222 over the previous year. Income from beer commissions totalled $32,442,017 — an increase of $4,455,161 over the previous year. Operating and administrative expenses for 1983-84 totalled $10,634,146 — a decrease of $79,139 from the previous year.

The Internal Audit department met its objective in visiting all branches and agency stores during the year and continued to make progress in broadening Audit coverage in all areas of Corporation activity. This department will continue to expand its coverage and further utilize the System Evaluation Approach — Documentation of Controls, which was implemented during the past year.

Store Operations

The program of improving the physical appearance and the merchandizing capability of the Corporation's stores was maintained through renovations in Baie Verte, Churchill Square, Deer Lake, Gander, Mount Pearl, Placentia, and St. Lawrence. In addition, the Corporation's outlet in Lewisporte was moved to a shopping mall; and plans were made to relocate the St. Anthony store early next year.

The establishment of new agency stores in Arnold's Cove, Cow Head, Gambo, Mary's Harbour, St. Thomas, Terrenceville, and Western Bay, plus the relocation of the Pasadena agency, improved the level of service in the Province. At the end of 1983-84, the Corporation was operating thirty-eight retail stores and forty-seven agencies.

In-store promotional activity was expanded during the year, with excellent support from suppliers and employees. While the Suppliers' Display Policy is the main focus of the Corporation's in-store promotional efforts, the use of displays of locally bottled product and theme promotions for occasions — such as St. Patrick's Day and Thanksgiving — allows store employees to utilize their own creativity.

The Corporation participated in the Province-wide celebration of the anniversary of Sir Humphrey Gilbert through the use of a newly-designed label for Screech and through in-store use of promotional material. The Royal Order of Screechers' Program was expanded during the year, receiving favourable response from tourists and in-Province participants.

As the sales trend towards dinner wine increased, the Corporation added a number of new specialty products and worked to improve in-store signage. Beaujolais Nouveau was introduced for the first time; and the positive consumer reaction will lead to an expansion of sales of this item in future.

Staff training and product information received emphasis in 1983-84 with management seminars and regional meetings held to cover a variety of topics. Selected Corporation personnel were involved in product training outside the Province, and the knowledge gained was communicated throughout the organization.

The Corporation continued to concentrate on security at the retail level with the use of outside expertise to evaluate existing security and service performance, and with the assistance of law-enforcement groups in provision of training to employees. In particular, the Crime Prevention Section of the Royal Canadian Mounted Police were most helpful during the year in the area of management training on loss prevention.

Increased effort into cost reduction and control at the store level resulted in improved operation efficiency during the year. This focus on cost control will continue to be a major concern of Store Operations.

Production & Distribution

The number of case goods produced by the Bottling Plant equalled last year's output of 117,000 cases despite the decreased sales volume for spirits locally and nationally. This production was maintained because the sales to other provinces of new franchise brands off-set the declines experienced by traditional products. Sales to other provinces more than doubled this year over last year and now is in excess of 38,000 cases.

Products produced for the first time during the year were Peter Dawson Scotch, Vat 19 Rum, and London Dock Rums. Most of the production of these products was shipped to other provinces. The Corporation continues to seek out opportunities to bottle more franchise products; and while imported products offer the best potential, current negotiations with Canadian distillers are expected to result in two contracts to bottle spirits in miniature bottles (50 ml).

Three 2,500 gallon stainless steel mixing tanks were installed in the Bottling Plant to improve the flexibility needed to blend and bottle the increased variety of products. Four 20 foot used, stainless steel transport tanks were purchased to reduce bulk spirit transportation costs and improve handling efficiency compared to barrel shipments. However, barrels cannot be eliminated completely, and barrel sales will continue, but on a more infrequent basis.

As part of the industry-wide metrication programme, the 341 ml (flask) size was converted to a 375 ml size, and plans were made for the conversion of the 710 ml size to the 750 ml size. This latter change will take place during 1984 and 1985, and a new 750 ml mould for bottles for Corporation products was obtained at no additional cost.

The Bottling Plant was shut down for the last two weeks of July for the first time, so that employees could take advantage of the peak holiday period, while, at the same time, costs for overtime and temporary personnel were reduced.

Personnel & Administration

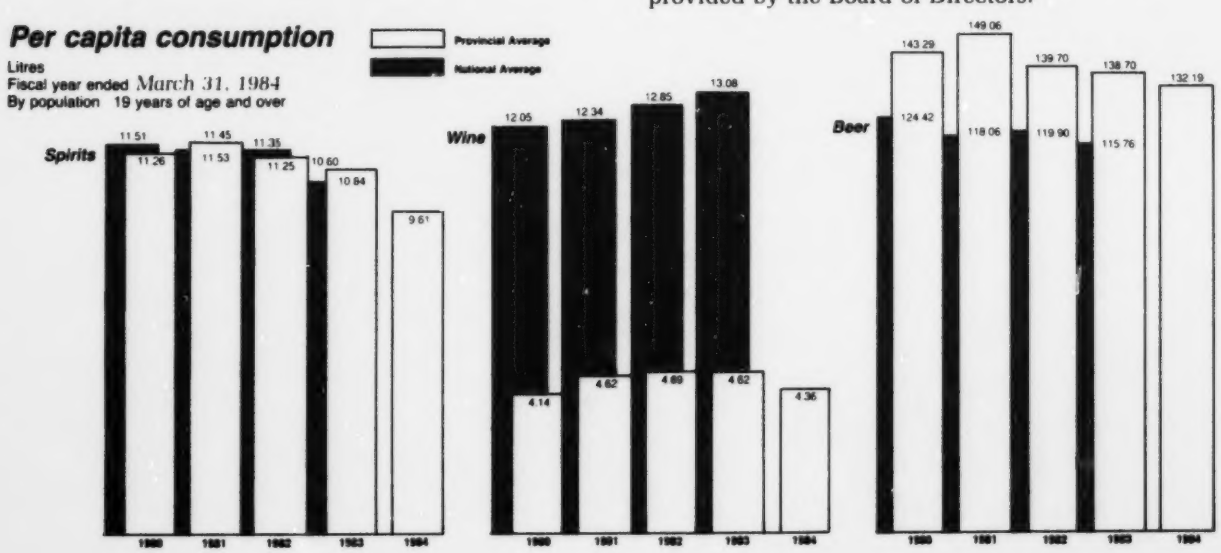
Training and development of the Corporation's employees continued to receive considerable emphasis during the year, thereby supporting our policy of encouraging upward mobility within the organization. Several benefits derive from this programme which allows internal applicants to be more competitive with those from outside; resultant internal promotions generally allow for shorter orientation periods which contribute to greater efficiency.

At year end, the salary portion of the Collective Agreement between the Corporation and the Newfoundland Association of Public Employees expired. Negotiations on this wage re-opener clause have, therefore, been scheduled for early in the new fiscal year.

Although new hirings were kept to a minimum, the Corporation has — through its selection procedures — continued to acquire high calibre staff and has, at present, a high level of staff competency in most areas.

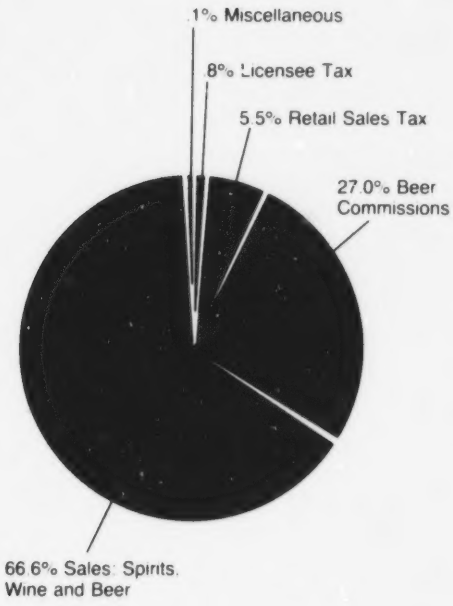
Major projects in the areas of Organization, Classification, and Salary Administration were undertaken in an effort to maintain and improve our levels of efficiency.

The Corporation expresses its appreciation for the responsibile attitude and co-operation demonstrated by the employees and for the advice and support provided by the Board of Directors.

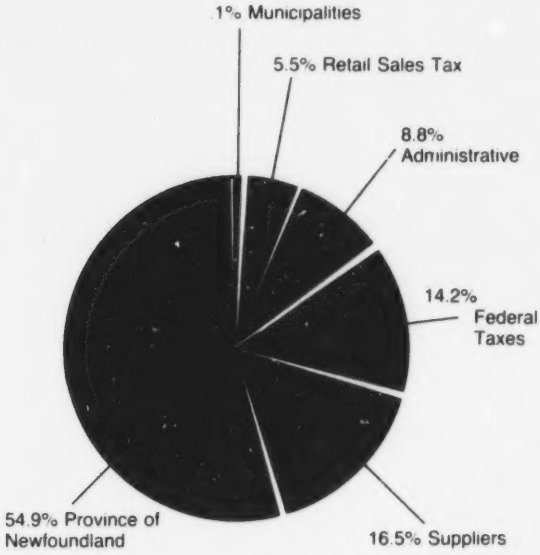


FISCAL YEAR 1983-84

Source of Revenue



Application of Revenue



Auditor's Report

To the President and Members
Newfoundland Liquor Corporation
St. John's, Newfoundland

I have examined the balance sheet of the Newfoundland Liquor Corporation as at 31 March 1984 and the statements of income and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at 31 March 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

J. F. McGrath, C.A.

J.F. McGrath, C.A.
Auditor General

St. John's, Newfoundland
21 September 1984

Balance Sheet, March 31, 1984

Assets

	1984	1983
Current		
Cash	**$ 3,939,474**	$ 1,354,158
Accounts receivable (Note 2)	**715,626**	351,396
Beer commissions receivable	**3,056,623**	2,925,915
Inventories (Note 3)	**10,320,882**	10,174,069
Prepaid expenses	**141,634**	103,324
	18,174,239	14,908,862
Fixed assets, at cost less accumulated depreciation (Notes 1(a) and 4)	**2,358,321**	2,284,952
Other assets, at cost less accumulated amortization (Notes 1 (b) (c) and 5)	**559,325**	516,168
	$21,091,885	$17,709,982

Liabilities and Retained Earnings

	1984	1983
Current		
Accounts payable	**$ 2,540,861**	$ 2,609,461
Accrued liabilities (Note 1[d])	**3,002,347**	2,996,338
Current portion of long-term debt (Note 6)	**400,000**	—
	5,943,208	5,605,799
Long-term debt (Note 6)	**2,600,000**	2,000,000
	8,543,208	7,605,799
Retained earnings		
Due to Province of Newfoundland	**12,548,677**	10,104,183
	$21,091,885	$17,709,982

See accompanying notes

Signed on behalf of the Board

President

Director

Statement of Income and Retained Earnings

For the Year Ended March 31, 1984

	1984	1983
Sales	**$80,010,707**	$76,483,485
Cost of goods sold		
Inventory, beginning of year	**10,174,069**	8,748,042
Purchases	**34,535,880**	35,784,684
Cost of goods available for sale	**44,709,949**	44,532,726
Less: Inventory, end of year	**10,320,882**	10,174,069
	34,389,067	34,358,657
Gross profit	**45,621,640**	42,124,828
Other operating income		
Commission on licensee purchases	**918,277**	903,815
Miscellaneous	**96,706**	152,246
	1,014,983	1,061,061
	46,636,623	43,185,889
Expenses:		
Administrative and operating (Schedule 1)	**10,634,146**	10,713,285
Net income from liquor store operations	**36,002,477**	32,472,604
Commission revenue on sale of beer	**32,442,017**	27,986,856
Net income for the year	**68,444,494**	60,459,460
Retained earnings, beginning of year	**10,104,183**	9,644,723
	78,548,677	70,104,183
Payments to the Province of Newfoundland	**66,000,000**	60,000,000
Retained earnings, end of year	**$12,548,677**	$10,104,183

See accompanying notes

Statement of Changes in Financial Position

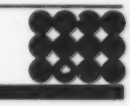
Year Ended March 31, 1984

	1984	1983
Funds provided:		
From operations		
Net income from liquor store operations	**$36,002,477**	$32,472,604
Commission revenue on sales of beer	**32,442,017**	27,986,856
Add (deduct) items not resulting in an inflow (outflow) of funds:		
Depreciation	**301,400**	313,827
Amortization	**278,982**	507,249
Loss (gain) on disposal of fixed assets	**(43,777)**	17
	68,981,099	61,280,553
Proceeds from disposal of fixed assets	**81,294**	267
Proceeds from bank loan	**—**	2,000,000
Proceeds from long-term debentures	**3,000,000**	—
	72,062,393	63,280,820
Funds applied:		
Payments to the Province of Newfoundland	**66,000,000**	60,000,000
Additions to fixed assets	**734,425**	1,174,694
Repayment of bank loan	**2,000,000**	—
Current portion of long-term debt	**400,000**	—
	69,134,425	61,174,694
Increase in working capital	**2,927,968**	2,106,126
Working capital, beginning of year	**9,303,063**	7,196,937
Working capital, end of year	**$12,231,031**	$ 9,303,063

See accompanying notes

Administrative and Operating Expenses

Year Ended March 31, 1984



	1984	1983
Salaries and employee benefits	**$ 6,156,327**	$ 6,028,696
Rent	**537,346**	516,376
Freight to stores	**304,605**	313,510
Agency store commissions and expenses	**1,306,636**	1,221,718
Municipal and school tax	**131,416**	170,581
Travelling	**95,264**	96,197
Heat and light	**241,242**	229,852
Cleaning	**136,943**	142,842
Communications	**117,708**	114,755
Advertising	**10,195**	15,236
Computer Services	**93,791**	160,120
Directors' fees and expenses	**3,853**	3,225
Interest and bank charges	**46,844**	51,110
Motor vehicle expenses	**3,175**	4,982
Consultants' fees	**4,735**	13,233
Store security	**48,586**	47,952
Store supplies and wrapping	**107,189**	88,218
Stationery and office supplies	**79,213**	97,272
Postage	**23,793**	23,438
Repairs and maintenance	**163,111**	275,918
Inventory breakage and shortage	**107,495**	114,661
Marketing	**38,864**	112,103
Dues and subscriptions	**8,404**	9,363
Insurance	**17,639**	18,464
Professional fees	**17,099**	6,330
Depreciation	**207,499**	216,529
Amortization	**278,982**	502,249
Uniforms	**51,856**	51,722
Staff recruiting	**5,502**	26,606
Staff training	**39,436**	44,422
Miscellaneous	**16,000**	12,146
Labour negotiations and grievances	**171**	1,656
Loss (gain) on disposal of fixed assets	**(43,777)**	17
Bad debts expense (recovery)	**19,708**	(18,214)
Interest on long term debt	**238,546**	—
Commission expense	**13,750**	—
	$10,634,146	$10,713,285

See accompanying notes

1. Accounting policies

(a) Fixed assets are capitalized at cost at the time of acquisition. Depreciation is recorded over the expected useful life of the asset on the straight line basis at the rates indicated in Note 4.

A full year's depreciation is recorded in the year of acquisition while no depreciation is taken on assets disposed of during the year.

The Blending Department's share of depreciation expense amounting to $93,901 ($97,298 in 1983) is allocated to cost of goods sold.

(b) Leasehold improvements are amortized on a straight line basis over the terms of the individual leases which range from 1 to 20 years.

The Blending Department was not charged with any amortization of leasehold improvements during the year. In 1983 $5,000 was allocated to cost of goods sold.

Following is a schedule of amortization of leasehold improvements by location:

	1984	1983
Head office	**$ 72,896**	$ 366,069
Other locations	**197,789**	132,883
	$ 270,685	$ 498,952

(c) Interest in leased land as described in Note 5 is amortized on a straight line basis over the initial 30 year term. The amount charged to operations in 1983 and 1984 was $8,297.

(d) Federal taxes on inventory held in bond at year end are included in head office inventory and related liability accounts. As at 31 March the following amounts were included in accrued liabilities:

	1984	1983
Customs duty	**$ 1,747,722**	$ 1,753,373
Excise duty	**588,220**	636,382
Federal Sales Tax	**312,321**	267,871
	$ 2,648,263	$ 2,657,626

2. Accounts receivable

	1984	1983
Trade	**$ 309,873**	$ 257,200
Claims	**358,366**	48,652
Other	**66,978**	48,360
	735,217	354,212
Less: Allowance for doubtful accounts	**19,591**	2,816
	$ 715,626	$ 351,396

Included in claims receivable is an estimated amount of $300,000 for a claim against the Federal Department of National Revenue for overpayment of Federal Sales Tax. The actual amount of the refund will be determined during an audit to be conducted by the Federal Department of National Revenue - Excise Branch.

3. Inventories

Inventories, at cost consist of the following:

	1984	1983
Raw materials	**$ 680,391**	$ 404,958
Head office inventory	**3,925,056**	4,004,919
Branch stores inventory	**2,550,911**	2,718,634
Stock in transit	**849,318**	883,030
Finished goods	**2,315,206**	2,162,528
	$10,320,882	$10,174,069

4. Fixed assets

Fixed assets, at cost less accumulated depreciation consist of the following:

	Depreciation Rate	Cost	Accumulated Depreciation	Net Book Value 1984	Net Book Value 1983
Land	—	$ 185,281	$ —	$ 185,281	$ 186,367
Buildings	5%	2,186,779	540,615	1,646,164	1,585,918
Store equipment and fixtures	20%	571,764	461,271	110,493	113,841
Motor Vehicle	33⅓%	11,639	3,880	7,759	—
Office furniture and equipment	10 & 20%	337,620	257,378	80,242	85,446
Plant and warehouse equipment	20 & 33⅓%	940,578	612,196	328,382	313,380
		$ 4,233,661	$ 1,875,340	$ 2,358,321	$ 2,284,952

5. Other assets

Other assets, at cost less accumulated amortization consist of leasehold improvements plus an interest in leased land as follows:

	Cost	Accumulated Depreciation	Net Book Value 1984	Net Book Value 1983
Leasehold improvements	$ 1,946,727	$ 1,611,434	$ 335,293	$ 283,838
Leased land	248,925	24,893	224,032	232,330
	$ 2,195,652	$ 1,636,327	$ 559,325	$ 516,168

The land is leased over an initial 30 year period at an annual rental of $4,800 with options to renew for an additional 140 years.

6. Long-term debt

	1984	1983
An unsecured temporary loan from Bank of Montreal bearing interest at prime and paid from the proceeds of 12⅛% debenture issued to the National Trust Company Limited as Trustee for Prudential Insurance Company of America.	$ —	$2,000,000
A 12⅛% debenture issued to the National Trust Company Limited as Trustee for Prudential Insurance Company of America repayable in ten equal consecutive annual principal instalments of $200,000 commencing on 30 June 1984 and semi-annual interest payments on 30 June and 30 December, commencing 30 December 1983. The debenture is guaranteed unconditionally as to principal and interest by the Province of Newfoundland.	2,000,000	—
A 11⅞% debenture issued to the Mutual Life Assurance Company of Canada repayable in five equal consecutive annual principal instalments of $200,000 commencing on 27 March 1985 and semi-annual interest payments on 27 March and 27 September, commencing 27 September 1984. The debenture is guaranteed unconditionally as to principal and interest by the Province of Newfoundland.	1,000,000	—
	3,000,000	2,000,000
Less: current portion	400,000	—
	$2,600,000	$2,000,000

7. Related party transactions

(a) The Corporation is leasing office and warehouse space rent free from a Crown Corporation, B.L.C. Building Corporation Limited; however, all operating and maintenance costs related to the building are the responsibility of the Corporation.

(b) The Corporation is leasing retail space for its Bell Island branch rent free from the Department of Public Works and Services; however, all operating and maintenance costs related to the building are the responsibility of the Corporation.

(c) The Corporation is leasing a building located in St. John's on Water Street rent free from the Department of Public Works and Services; however, all operating and maintenance costs related to the building are the responsibility of the Corporation.

8. Lease commitments

The Corporation has leases on file with terms ranging from 1 to 20 years covering retail outlets. Annual lease obligations during the next 5 years are as follows:

1985	$ 524,557
1986	430,185
1987	367,142
1988	295,780
1989	209,971
	$1,827,635

9. Comparative figures

Comparative figures have been revised, where necessary, to conform with current year's financial statement presentation.

10. Pensions

The Public Service (Pensions) (Newfoundland Liquor Corporation) Regulations, 1974, made the Corporation and its staff subject to the Public Service (Pensions) Act with effect from 26 June 1973. Pension dues deducted from employees' salaries are matched by the Corporation and then remitted to the Province of Newfoundland (as of 1 July 1980 the Province of Newfoundland Pooled Pension Fund) from which pensions will be paid to employees when they retire.

BOARD OF DIRECTORS

Douglas M. Chafe, R.I.A.
President

Keith Griffiths
Vice-President, Operations

Frederick W. Russell, C.M., LL.D
Director

Dorothy Robbins, B.A.
Director

David Norris, B.Comm., M.B.A.
Director
(Representing Government of Newfoundland,
Department of Finance)

Peter F. Kennedy, B.Comm.
Director
(Representing Government of Newfoundland,
Treasury Board)

Cyril Banikhin
Director
(Chairman, Newfoundland Liquor Licensing Board)

Charles W. White, B.Comm., LL.B
Director